

Internal Revenue Service
memorandum

TL-N-1574-89

CC:TL:TS/LJBYUN

date: FEB 1 1989

to: District Counsel, Los Angeles W:LA
Attn: Joyce Sugawara

from: Assistant Chief Counsel (Tax Litigation) CC:TL

subject: Scar Issue: [REDACTED]

Docket No. [REDACTED]

This memorandum is in response to your request for technical advice regarding a Scar issue in the above-mentioned case.

ISSUE

Is the statutory notice of deficiency in this case valid under Scar v. Commissioner, 814 F.2d 1363 (9th Cir. 1987)?

CONCLUSION

This case should be conceded. Although the right adjustment was made (i.e., right amount and right shelter) and the "plug rate" applied was coincidentally the right rate, not all of the relevant information in the transcript of account was used in determining the deficiency.

FACTS

A statutory notice of deficiency was issued to the [REDACTED] on [REDACTED], for the tax year [REDACTED]. The statutory notice specified a deficiency in the amount of \$[REDACTED] arising from disallowed losses in the amount of \$[REDACTED] and disallowed investment tax credit of \$[REDACTED] with respect to [REDACTED]. The statutory notice used the "smoking gun language" of Scar ("In order to protect the government's interest and since your original income tax return is unavailable at this time, the income tax is being assessed at the maximum rate of [REDACTED] %."). The administrative file contained a transcript of account for [REDACTED] as of the [REDACTED]th week of [REDACTED]. It appears that the only information taken from the transcript of account was the tax shown on the return. No information showing taxable income or AGI was used.

The K-1 for [REDACTED] showed a loss of \$[REDACTED] and amount subject to the investment tax credit of \$[REDACTED]

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DISCUSSION

(█% of which is \$█). The █ claimed such amounts on their █ return.

Since this case lies within the Ninth Circuit, we recommend that the case be conceded based upon the Scar holding. Although the Service does not agree with the Ninth Circuit's "substantive content" standard for testing the validity of deficiency notices under section 6212(a), as a result of the uncertainty of the scope of Scar, the Service wants to restrict the impact of the decision to the facts in that case. Therefore, the Service will not relitigate the "determination issue" on facts not materially different from Scar.

It is our position that we do not need to have the original return to make a determination. Instead, we can rely on taxpayer return information found in the transcript of account, as well as relevant K-1s. Since it is our position that we can rely on the Service's data bases to make a determination, it is imperative that we actually use the information from the transcript to make the determination, as compared to "backing into" the deficiency. If we use the amount shown for AGI or taxable income from the transcript, as well as the amount shown for tax on return, plus the other information regarding the adjustments, a proper determination can be made.

Although this case is clearly distinguishable from the facts of Scar, this is not the type of case that we want to defend in the Ninth Circuit since it does not involve facts that justify application of our theory that a proper determination can be made by using relevant information from our data bases. If this case was in any other circuit we would defend it.

Here, the right adjustment (i.e., right amount and right shelter) was made and the right rate (█%) was coincidentally applied. The fact remains, however, that the deficiency was "backed into." The Service failed to use all the relevant information that was available when the determination was made.

Based upon the above facts, we do not recommend defending this case. Should you have any further questions regarding this matter, please contact Lisa Byun, Tax Shelter Branch, at FTS 566-3289.

MARLENE GROSS

By:

Kathleen E. Whatley
KATHLEEN E. WHATLEY

Chief, Tax Shelter Branch

W. L. ...
Acting ST.